

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4277-01
BILL NO.: HB 1925
SUBJECT: Business and Commerce; Revenue Department; Science and Technology;
Taxation and Revenue.
TYPE: Original
DATE: February 16, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$1,046,115)	(\$1,000,000)	(\$1,000,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$1,046,115)	(\$1,000,000)	(\$1,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state that this proposal authorizes a tax credit equal to 10% of qualified research expenses, or 25% of the qualified research expenses in a distressed community. The total amount of tax credits cannot exceed \$10 million and at least \$2 million is reserved for expenses incurred in distressed communities. The maximum amount of credit a taxpayer can receive is \$500,000, or \$1,250,000 for qualified expenses in a distressed community. The Department of Economic Development will certify this tax credit to the taxpayer and the Department of Revenue.

The DOR officials assume the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this credit for key entry. In order to process the credits, the Personal Tax Bureau will need one Tax Processing Tech I for every 2,000 credits filed, and the Business Tax Bureau will need one Tax Processing Tech I for every 3,680 credits filed. One Tax Processing Tech I will be needed for every 3,000 pieces of correspondence received regarding the credit.

The DOR also states this proposal will require modifications to the individual income tax system. The DOR estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured, at a cost of \$4,498.

Officials from the **Department of Economic Development (DED)** state this proposal would reduce total state revenue by \$10 million. The impact is projected as being claimed at \$1 million per year although this impact could vary greatly because credits can be carried forward 10 years and back 3 years. Tax credits may be used against Chapter 143, Income Tax; Chapter 147, Franchise Tax; or Chapter 148, Financial Institution Tax. It allows for a tax credit equal to 10% for qualified research expenses and in the case of qualified research expense in a distressed community, the tax credit increases to 25%.

The DED assumes the credits will be used at a rate of \$1 million per year over 10 years. This could vary greatly due to carry back provisions and inability to determine how fast or slow credits would be requested or claimed. The DED assumes the need for one Economic Development Incentive Specialist II (at \$36,468 annually) plus associated expense and equipment to do promotion of the credit, authorization, and taxpayer assistance plus all other administrative duties related to the program.

ASSUMPTION (continued)

Officials from the **Office of Administration, Budget and Planning** defers to the fiscal estimates of the Department of Economic Development.

Oversight assumes the DOR could request additional FTE to process the additional credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to only incur programming and data storage costs from this proposal. Oversight also assumes the DED could absorb the program with existing staff.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss - General Revenue Fund</u>			
Qualified research tax credits	(\$1,000,000)	(\$1,000,000)	(\$1,000,000)

<u>Costs - Department of Revenue</u>			
Programming charges	(\$46,115)	\$0	\$0

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,046,115)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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	\$0	\$0	\$0
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FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses who incur qualified research expenses would be expected as a result of this proposal.

DESCRIPTION

This bill authorizes credits against income tax, corporate franchise tax, or financial institution tax liability for certain types of research expenses. Businesses which employ no more than 150 employees and are engaged, on a for-profit basis, in the development of medical instruments, medical diagnostic or therapeutic devices, plant science products, pharmaceutical or veterinary products with agricultural applications, or other life or biomedical science products may qualify for the tax credits if they engage in qualified research, as defined in the bill. "Qualified research" refers to research undertaken to discover information of a technological nature. Eligible businesses may receive a tax credit equal to 10% of their qualified research expenses; expenses incurred in a distressed community qualify the business for a 25% tax credit. These tax credits may be transferred, sold, or assigned. The Department of Economic Development is to administer the tax credit program and certify the amount of any credit awarded to the Department of Revenue. Individual businesses are allowed a maximum credit of \$500,000; if the qualified research expenses are incurred in a distressed community, the maximum tax credit per business is \$1,250,000. Credits exceeding tax liability may be carried forward 10 years; the credit may also be carried back 3 years if the tax credit is awarded for expenses incurred in a distressed community. If the tax credit has already been applied against the tax liability of a business which transfers its qualified research outside of Missouri within 3 years of receiving the credit, the business must repay the amount of the tax credit related to the transferred research. The total amount of tax credits available through this program is not to exceed \$10 million, with \$2 million of the total reserved for qualified research expenses incurred in a distressed community. The bill authorizes the Department of Economic Development to promulgate rules to implement the provisions of the bill.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Office of Administration
Budget and Planning



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Director
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L.R. NO. 4277-01
BILL NO. HB 1925
PAGE 5 OF 4
February 16, 2000